

# Equity strategy

## Top picks on market weakness

### UX falls 43% from March peak; reason for rout to quell

Ukraine's benchmark equity index, the UX, has shed 30% this month (vs. RTS' 21% and MSCI EM's 15%) and 43% since its recent peak on March 25.

The Bloomberg consensus of investment banks has the S&P 500 hitting 1,383 points by yearend, implying a 23% rise. We also see reason for the rout in domestic equities to quell: compared to 2008, the threats of economic recession and sovereign debt in the US and EU are better understood; domestically, the Ukrainian banking system and corporations overall are better prepared and less leveraged. Even with the persistence of a general global risk-off mentality, we believe there are fundamental reasons to expect a modest, gradual recovery in autumn, when local market activity usually picks up, of up to 10-15% from current levels by end-November.

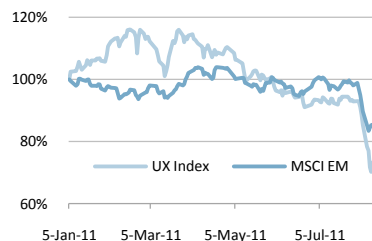
### Top picks for a recovery

We deem the following Ukrainian equities to have the highest potential for growth after the correction:

- *Liquid blue chips:* Avdiivka Coke (AVDK UK), Motor Sich (MSICH UK), MHP (MHPC LI), Kernel (KER PW)
- *Stocks that should benefit from the commodities slowdown:* Milkiland (MLK PW)
- *Stocks with clear triggers (privatization):* Centrenergo (CEEN UK), Donbasenergo (DOEN UK)
- *Dividend plays:* Central Iron Ore (CGOK UK), Northern Iron Ore (SGOK UK), Khartsyzsk Pipe (HRTR UK)

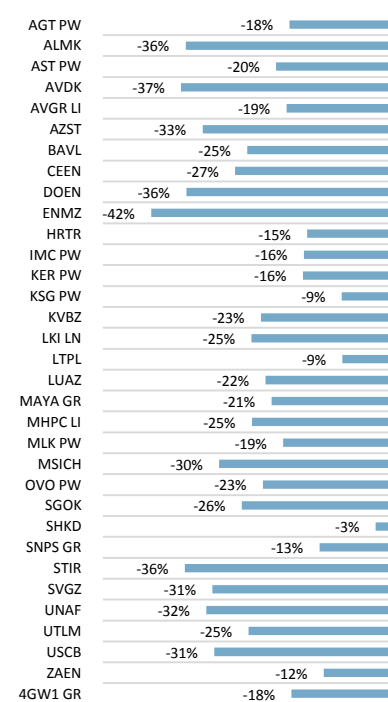
Report date	22 Aug 2011
UX Index (close 19 Aug)	1,634.46
1-week performance	-10.3%
1-month performance	-30.1%
52-week performance	-20.3%
ADT, 12M, USD mln	21.9

### UX performance vs. MSCI EM



Source: Bloomberg, UX

### Performance of most liquid Ukrainian stock in August 2011



Note: Calculated in currency of listing exchange  
Source: UX, Bloomberg

## Appendix

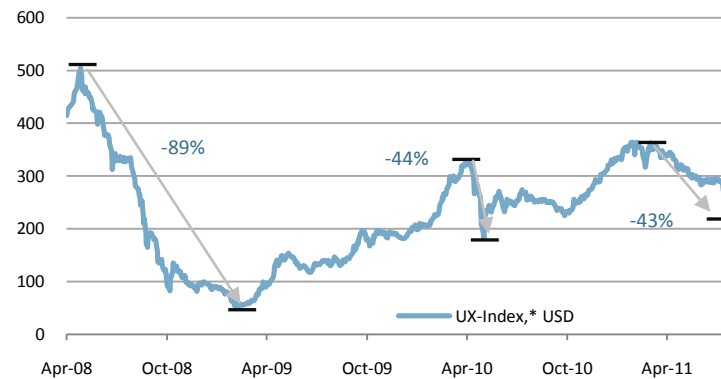
### Ukraine: 1H08 vs. 1H11

	1H08	1H11
Current account deficit, % of GDP	-7.9%	-2.0%
Public debt level, % of GDP	10.5%	40.0%
NBU reserves, USD bln	32	38
CAR of Ukrainian banking system, %	13.4%	19.2%
Commodities' share in export structure, %	74%	71%
UX Index	1,291.65*	1,738.36**

\* As of September 1, 2008. \*\* As of August 19, 2011

Source: NBU, State Statistics Committee, Bloomberg, UX

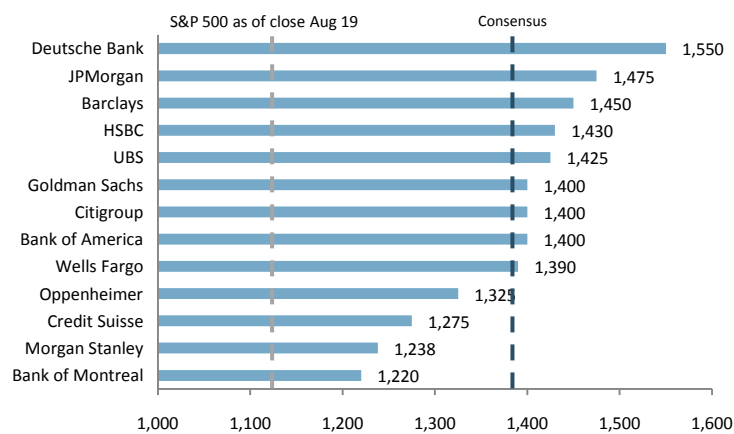
### Benchmark Ukrainian equity index performance



\* PFTS index rebased until March 26, 2009; UX index thereafter

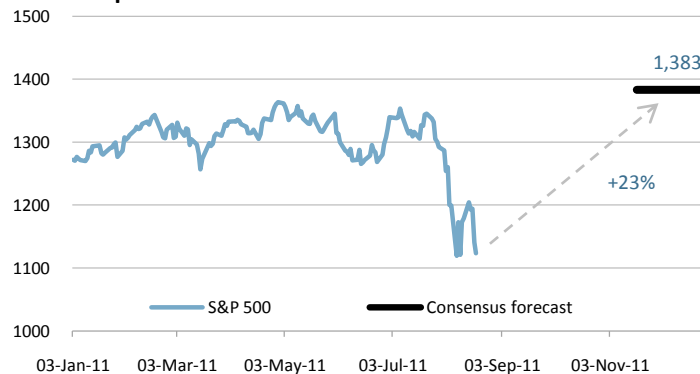
Source: Bloomberg, UX, PFTS

### S&P 500 forecasts at yearend 2011



Source: Bloomberg

### S&P 500 performance and consensus forecast



Source: Bloomberg

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